



ASX ANNOUNCEMENT

26 February 2007

RAMSAY HEALTH CARE ANNOUNCES 22% RISE IN CORE NET PROFIT

Financial Highlights

- Core net profit after tax up 22% to \$56.0 million
- Core EPS after preference dividend up 21% to 27.9 cents
- Basic EPS up 33% to 27.2 cents
- Revenue up 7% to \$1.06 billion
- EBIT up 10% to \$108.2 million
- Net profit after tax up 32% to \$54.8 million
- Interim dividend 13.0 cents, fully franked, up 24%

Overview

Australia's largest private hospital operator Ramsay Health Care today announced a 22% increase in core net profit after tax from continuing operations (before specific items and amortisation of intangibles) to \$56.0 million for the six months to 31 December 2006, up from \$45.7 million in the previously corresponding half year.

The core net profit translates into core earnings per share (EPS) of 27.9 cents for the half year, a 21% increase on the 23.0 cents recorded in the previous corresponding period. Basic EPS rose 33% to 27.2 cents per share.

Net profit after tax, specific items, amortisation of intangibles and divested operations was 32% higher at \$54.8 million.

Directors have declared a fully franked interim dividend of 13.0 cents per share, up 24% from 10.5 cents paid in the previous corresponding half year.

Ramsay Managing Director Pat Grier said the six month result was pleasing, as the profit growth had been achieved over the strong result recorded for the previous corresponding first half, which included the first six month contribution from the Affinity acquisition.

“During the half year, we continued to realise the synergies we said we would achieve from the Affinity acquisition. In addition, we achieved solid organic growth across most of the portfolio.

“There were two one-off factors which had an adverse impact on the half year results. The recovery from private health insurers of the significant nurses wage increases in Queensland is not fully reflected in this six month result due to the lag in the recovery of the increased reimbursement rates.

“In addition and as previously foreshadowed, the transition of our veterans’ hospitals (Greenslopes in Brisbane and Hollywood in Perth) to private patients has resulted in slower profit growth at these hospitals.

“The above factors combined have had a dilutionary effect on organic growth.

“We have been planning for the transition from the exclusive DVA contracts to private patients at Greenslopes and Hollywoods for some time and this transition has gone far better than we had initially expected. We expect there to be limited impact from this transition after this financial year.

“Overall, we are pleased with the underlying performance and results of our hospitals in the first half and are well placed to achieve our financial and operational targets for the full 2007 financial year.”

Performances at both the Ramsay hospitals and the former Affinity hospitals, acquired in April 2005, were pleasing and the integration of Affinity remained well on track.

Ramsay expects to achieve the pre-tax cost and revenue synergies targeted at the time of the Affinity acquisition.

Capital Management and Cashflow

At the time of the Affinity acquisition, the leverage ratio (Net Debt/EBITDA) was approximately five times. Since the acquisition, the leverage ratio has improved to under three times at 31 December 2006. The faster-than-expected reduction in debt levels provides Ramsay with greater financial flexibility to pursue and realise growth opportunities.

The interest cover ratio (measured on a rolling 12 months basis) improved from 4.3 times at 30 June 2006 to 4.9 times at 31 December 2006.

Operating cash flow in the first half of the 2007 financial year was adversely impacted by the one-off replacement of ‘DVA receivables’ with ‘private patient receivables’ on less favourable payment terms. Protracted Health Fund negotiations also delayed billings and consequently slowed collections. During January and February 2007, cash collections have been trending back to their normal target levels.

Operational highlights

Group EBIT increased 10% in the half year to \$108.2 million. At the hospital level, EBIT growth at the former Affinity hospitals rose 7%, while EBIT growth at Ramsay hospitals was 3%, reflecting the transitional arrangements at Greenslopes and Hollywood outlined above.

The Group EBIT margin improved to 10.2% from 10.0% for the previous corresponding period, reflecting ongoing cost containment and the realisation of synergies from the integration of Affinity.

Planned Capacity Expansion

Ramsay has advised previously that it has financial capacity to invest at least \$400 million in enhancements and capacity expansion of its hospital portfolio.

As part of this plan, Ramsay has identified locations where it would seek to develop large multi-service hospitals to attract increased referrals in major metropolitan areas as part of its brownfields capacity expansion program.

These locations include Brisbane (Greenslopes), Gold Coast (Pindara, John Flynn), Sydney (North Shore, Westmead, St George Private Hospitals), Melbourne (Warringal, Frances Perry) and Perth (Hollywood, Joondalup).

Ramsay is targeting a return on investment of 15% on this brownfields expansion in two to three years after construction is completed.

The investment in brownfields expansion is expected to start enhancing profit growth gradually from the 2008 financial year onwards.

Many of the brownfield projects identified are progressing through the planning phase.

Of the major sites:

- Westmead is progressing following DA approval for expansion of the operating theatres. Building is expected to commence in the second quarter of calendar 2007.
- Additional land has been purchased adjacent to St George Private which allows for significant future development. An additional operating theatre and day surgery capacity has been added. This is part of a much larger expansion plan which is well advanced.
- Hollywood's major development, approved last year for \$128.5 million, has commenced and is progressing well.
- John Flynn has now completed adding additional consulting suite capacity and is well advanced with plans for future operating capacity expansion.

- Greenslopes has completed the addition of four operating theatres and is well progressed on the development of substantial consulting suite capacity and upgrade of accommodation.
- Additional land has been purchased adjacent to Warringal to allow for expansion.
- At Joondalup, negotiations are well advanced with the Western Australian Government for expansion of both the public and private hospitals on the Joondalup campus.

Outlook

Based on the first half results, Ramsay is on track to achieve full year growth in core EPS of 15% to 20% targeted at the start of the 2007 financial year.

Ramsay's investment in brownfields development, which has been a strong contributor to the company's profitable growth over the past few years, is expected to provide the next phase of growth on top of the Affinity contribution from the 2008 financial year onwards.

Now that the benefits of the Affinity acquisition are being realised and the brownfields expansion programme is through the planning phase and being rolled out, Ramsay is now in a position to pursue further growth opportunities.

Ramsay continues to explore potential acquisitions of hospitals within Australia where it is not facing competition issues and hospital acquisitions outside Australia, as well as other areas of health care close to core management competency.

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Summary of Financial Performance

Half Year ended 31 December
\$000's

<u>Continuing Operations</u>	2006	2005	%
Operating Revenue	1,055,614	983,455	7%
EBITDA	138,210	127,464	8%
EBIT	108,159	98,505	10%
Core Net Profit after tax - continuing operations	55,958	45,735	22%
Net Profit after tax – divested operations	114	4206	
Specific Items and amortisation of intangibles (net of tax)	(1,319)	(8,589)	
Net Profit after tax	54,753	41,351	32%
Basic EPS (cents per share)	27.2¢	20.4¢	33%
Interim dividend (cents per share) fully franked	13.0¢	10.5¢	24%

<u>Earnings per Share (cents per share)</u>	2006	2005	%
Core EPS – continuing operations	27.9¢	23.0¢	21%
Basic EPS	27.2¢	20.4¢	33%

Notes:

- 1) *'Core Net Profit – continuing operations' and 'Core Earnings per Share – continuing operations' are before specific item, amortisation of intangibles and divested operations.*
- 2) *All EPS calculations are based upon Net Profit after tax adjusted for preference dividend.*
- 3) *Prior half year restated for AIFRS and divested operations.*